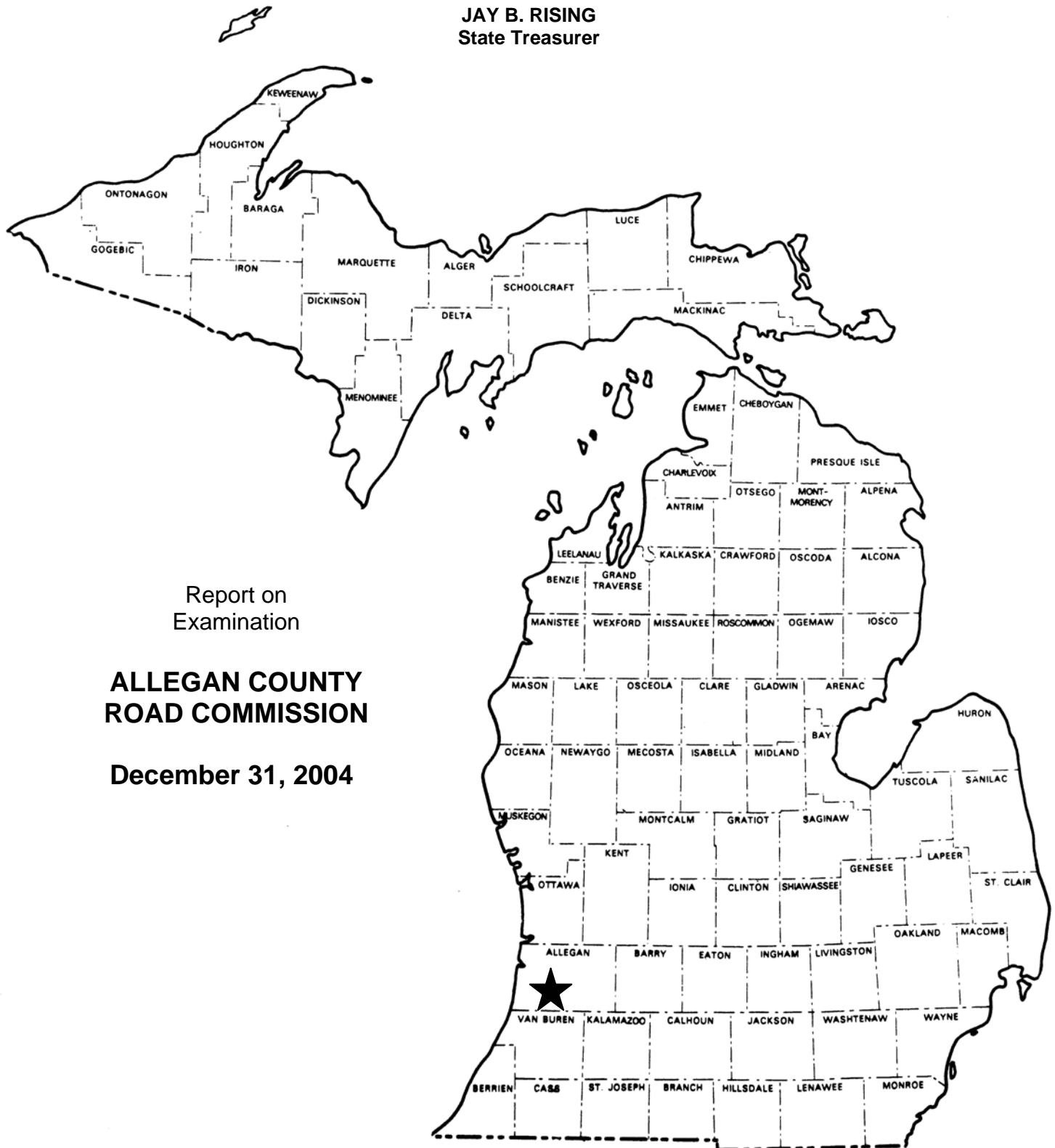


**STATE OF MICHIGAN**  
JENNIFER M. GRANHOLM, Governor  
**DEPARTMENT OF TREASURY**

JAY B. RISING  
State Treasurer



Report on  
Examination

**ALLEGAN COUNTY  
ROAD COMMISSION**

**December 31, 2004**

Local Audit and Finance Division  
Bureau of Local Government Services

ALLEGAN COUNTY ROAD COMMISSION  
BOARD OF COUNTY ROAD COMMISSIONERS

Bruce D. Culver  
Chairman

James S. Rolfe  
Vice-Chairman

John Cravens  
Member

William L. Nelson  
Managing Director

Claire R. Patrick  
Business Manager

COUNTY POPULATION--2000  
105,665

STATE EQUALIZED VALUATION--2004  
\$4,591,867,887



JENNIFER M. GRANHOLM  
GOVERNOR

STATE OF MICHIGAN  
DEPARTMENT OF TREASURY  
LANSING

JAY B. RISING  
STATE TREASURER

March 23, 2005

Allegan County Road Commission  
Board of County Road Commissioners  
1308 Lincoln Road  
Allegan, Michigan 49010

Independent Auditor's Report

Dear Commissioners:

We have audited the accompanying basic financial statements of the Allegan County Road Commission, a component unit of Allegan County, Michigan, as of and for the year ended December 31, 2004, as listed in the Table of Contents. These financial statements are the responsibility of the Road Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Allegan County Road Commission as of December 31, 2004, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 1 through 8 and the budget comparison information in Exhibits G and H are not part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with Government Auditing Standards, we have also issued our report dated March 23, 2005 on our consideration of the Road Commission's internal control over financial reporting and our test on its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of Allegan County Road Commission, taken as a whole. The accompanying supplemental and related information in Exhibits I through K is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements, taken as a whole.

A handwritten signature in dark ink, appearing to read 'CJ Vaughn', with a stylized flourish at the end.

Cary Jay Vaughn, CPA, CGFM  
Audit Manager  
Local Audit and Finance Division

# ALLEGAN COUNTY ROAD COMMISSION

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# **ALLEGAN COUNTY ROAD COMMISSION**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

Our discussion and analysis of Allegan County Road Commission's financial performance provides an overview of the Road Commission's financial activities for the calendar year ended December 31, 2004. This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Road Commission and present a longer-term view of the Road Commission's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Road Commission's operations in more detail than the government-wide financial statements.

### **Overview of the Financial Statements**

This annual report consists of four parts--Management's Discussion and Analysis (this section), the basic financial statements, required supplementary information, and an additional section that presents the operating fund broken down between primary, local and county funds. The basic financial statements include two kinds of statements that present different views of the Road Commission:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Road Commission's overall financial status. These statements report information about the Road Commission, as a whole, using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid. The two government-wide statements report the Road Commission's net assets and how they have changed. "Net assets" is the difference between the assets and liabilities--this is one way to measure the Road Commission's financial health or position.
- The remaining statements are fund financial statements that focus on individual funds; reporting the operations in more detail than the government-wide statements.

### **Reporting the Road Commission as a Whole**

#### **Government-Wide Statements**

The Statement of Net Assets and the Statement of Activities report information about the Road Commission, as a whole, and about its activities in a way that helps answer the question of whether the Road Commission, as a whole, is better off or worse off as a result of the year's activities. The Statement of Net Assets includes all of the Road Commission's assets and liabilities using the accrual basis of accounting, which is similar to the accounting method used by most private-sector companies. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

**ALLEGAN COUNTY ROAD COMMISSION**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

The two statements, mentioned above, report the Road Commission's net assets and how they have changed. The reader can think of the Road Commission's net assets (the difference between assets and liabilities) as one way to measure the Road Commission's financial health or financial position. Over time, increases or decreases in the Road Commission's net assets are one indicator of whether its financial health is improving or deteriorating, respectively. To assess the overall health of the Road Commission you need to consider additional nonfinancial factors such as changes in the county's property tax base, the condition of the Road Commission's roads, and changes in the law related to the gas taxes and its distribution.

Fund Financial Statements

The Road Commission currently has only one fund, the General Operations Fund. All of the Road Commission's activities are accounted for in this fund. The General Operations Fund is a governmental fund type. Our analysis of the Road Commission's major fund begins on page 4. The fund financial statements begin on page 9 and provide detailed information about the major fund.

Governmental funds focus on how money flows into and out of this fund and the balances left at year end that are available for spending. This fund is reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The Governmental Fund statements provide a detailed short-term view of the Road Commission's general governmental operations and the basic service it provides. Governmental fund information helps the reader to determine whether there are more or fewer financial resources that can be spent in the near future to finance the Road Commission's services. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and the Governmental Fund in a reconciliation following the fund financial statements.

**Financial Analysis of the Road Commission as a Whole**

The Road Commission's net assets increased approximately 30.37%, or \$10,548,378, from \$34,737,722 to \$45,286,100 for the year ended December 31, 2004. The net assets and change in net assets are summarized below.

Net Assets

Restricted net assets are those net assets that have constraints placed on them by either: a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or b) imposed by law through constitutional provisions or enabling legislation. Enabling legislation authorizes the government to assess, levy, charge or otherwise mandate payment of resources and includes a legally enforceable requirement that those resources be used only for the specific purpose stipulated in the legislation. As such, all assets (except for assets invested in capital assets, net of related debt) are considered restricted.

**ALLEGAN COUNTY ROAD COMMISSION**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

The restricted net assets decreased by \$268,793 during 2004. The primary reason for the decrease was a decrease in current assets due to an increase in program expenses.

The investment in capital assets, net of related debt increased by \$10,817,171. The increase in net assets is primarily the result of the reporting infrastructure of \$11,897,357 for the year 2004. The depreciation for the current year's infrastructure will be depreciated in the subsequent year. The Road Commission will retroactively report infrastructure assets (assets acquired after 1980) in a subsequent year as permitted by GASB No. 34.

Net assets as of year ended December 31, 2004 follows:

	<u>2003</u>	<u>2004</u>	<u>Variance</u>	<u>%</u>
Current and Other Assets	\$ 6,492,302	\$ 6,980,737	\$ 488,435	7.52%
Capital Assets	<u>31,678,180</u>	<u>42,424,427</u>	<u>10,746,247</u>	<u>33.92%</u>
Total Assets	<u>38,170,482</u>	<u>49,405,164</u>	<u>11,234,682</u>	<u>29.43%</u>
Long-Term Debt Outstanding	621,408	639,980	18,572	2.99%
Other Liabilities	<u>2,811,352</u>	<u>3,479,084</u>	<u>667,732</u>	<u>23.75%</u>
Total Liabilities	<u>3,432,760</u>	<u>4,119,064</u>	<u>686,304</u>	<u>19.99%</u>
Net Assets				
Invested in Capital Assets				
Net of Related Debt	31,386,035	42,203,206	10,817,171	34.46%
Restricted	<u>3,351,687</u>	<u>3,082,894</u>	<u>(268,793)</u>	<u>-8.02%</u>
Total Net Assets	<u>\$ 34,737,722</u>	<u>\$ 45,286,100</u>	<u>\$ 10,548,378</u>	<u>30.37%</u>

**ALLEGAN COUNTY ROAD COMMISSION**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

Changes in Net Assets

A summary of changes in net assets for the year ended December 31, 2004 follows:

	Governmental Activities			
	2003	2004	Variance	%
Program Revenue				
License and Permits	\$ 26,973	\$ 29,593	\$ 2,620	9.71%
Federal Grants	1,185,263	2,043,034	857,771	72.37%
State Grants	8,222,211	9,011,684	789,473	9.60%
Contributions From Local Units	5,359,038	5,310,123	(48,915)	-0.91%
Reimbursements	11,328	2,189	(9,139)	-80.68%
Investment Earnings	120	47,402	47,282	39401.67%
Charges for Services	6,690	10,845	4,155	62.11%
General Revenue				
Taxes	2,113,901	2,231,533	117,632	5.56%
Gain on Equipment Disposal	175,938	56,984	(118,954)	-67.61%
Gain on Sale of Surplus Property	12,822	14,062	1,240	100.00%
Total Revenue	17,114,284	18,757,449	(1,662,433)	-9.71%
Expenses				
Public Works	7,833,510	8,332,224	(498,714)	-6.37%
Interest Expense	19,781	12,980	6,801	34.38%
Total Expenses	7,853,291	8,345,204	(491,913)	-6.26%
Excess Before Transfers	9,260,993	10,412,245	1,151,252	12.43%
Transfers In--Primary Government	34,214	136,133	(101,919)	100.00%
Increase (Decrease) in Net Assets	9,295,207	10,548,378	1,253,171	13.48%
Beginning Net Assets	25,442,515	34,737,722	9,295,207	36.53%
Ending Net Assets	\$ 34,737,722	\$ 45,286,100	\$ 10,548,378	30.37%

The Road Commission's Fund

The Road Commission's General Operations Fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the county which are earmarked by law for road and highway purposes.

**ALLEGAN COUNTY ROAD COMMISSION**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

For the year ended December 31, 2004, the fund balance of the General Operations Fund decreased \$250,221 as compared to an increase of \$634,256 in the fund balance for the year ended December 31, 2003. Total operating revenues were \$18,764,960, an increase of \$1,630,498 as compared to last year. This change in revenues resulted primarily from an increase of Federal and State grants of \$1,647,244. Total expenditures were \$19,151,314, an increase of \$2,616,894 as compared to last year. This change in expenditures is due primarily to an increase in local heavy maintenance projects of \$2,645,177.

A summary of changes in the Operating Fund is as follows:

	12/31/2003 Operating Fund	12/31/2004 Operating Fund	Favorable (Unfavorable) Variance	Variance %
Revenues				
Taxes	\$ 2,113,901	\$ 2,231,533	\$ 117,632	5.56%
License and Permits	26,973	29,593	2,620	9.71%
Federal Grants	1,185,263	2,043,034	857,771	72.37%
State Grants	8,222,211	9,011,684	789,473	9.60%
Contributions From Local Units	5,359,038	5,310,123	(48,915)	-0.91%
Charges for Services	15,040	10,845	(4,195)	-27.89%
Interest and Rents	120	47,402	47,282	39401.67%
Other Revenue	211,916	80,746	(131,170)	-61.90%
Total Revenues	17,134,462	18,764,960	1,630,498	9.52%
Expenditures				
Public Works	16,504,477	19,265,669	(2,761,192)	-16.73%
Net Capital Outlay	(116,125)	(198,259)	82,134	-70.73%
Debt Service	146,068	83,904	62,164	42.56%
Total Expenditures	16,534,420	19,151,314	(2,616,894)	-15.83%
Excess of Expenditures Over Revenues	600,042	(386,354)	(986,396)	164.39%
Other Financing Sources				
Transfers In--Primary Government	34,214	136,133	101,919	100.00%
Total Other Financing Sources	34,214	136,133	101,919	100.00%
Excess of Revenues and Other Financing Sources Over Expenditures	634,256	(250,221)	(884,477)	139.45%
Fund Balance--Beginning	3,117,618	3,751,874	634,256	20.34%
Fund Balance--Ending	\$ 3,751,874	\$ 3,501,653	\$ (250,221)	-6.67%

**ALLEGAN COUNTY ROAD COMMISSION**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Budgetary Highlights**

Prior to the beginning of any year, the Road Commission's budget is compiled based upon certain assumptions and facts available at that time. During the year, the Road Commission Board acts to amend its budget to reflect changes in these original assumptions, facts and/or economic conditions that were unknown at the time the original budget was compiled. In addition, by policy, the board reviews and authorizes large expenditures when requested throughout the year.

The final amended revenue budget for 2004 was \$1,795,750 lower than the original budget primarily due to the Road Commission not receiving certain Federal and State aid projects during the year as originally planned. The actual revenue recognized during 2004 was \$5,007 less than the final amended budget.

The final amended expenditure budget for 2004 was \$1,570,850, lower than the original budget, primarily due to the Road Commission not receiving certain Federal and State aid projects as originally planned. There was also an increase in Winter Maintenance of \$377,000 due to seasonal needs. The actual expenditures recognized during 2004 were less than the final amended budget by \$15,986. There were no unfavorable variances in any expenditure line-items.

**ALLEGAN COUNTY ROAD COMMISSION**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Capital Asset and Debt Administration**

Capital Assets

As of December 31, 2004, the Road Commission had invested \$42,424,427 in capital assets. This amount represents a net increase (including additions and deductions) of \$10,746,247 or 33.92% as follows:

	2003	2004	Total Percentage Change 2003-2004
Capital Assets Not being Depreciated			
Land and Improvements	\$ 147,298	\$ 139,787	-5.10%
Land/Right-of-Way	184,797	214,738	16.20%
Infrastructure Land Improvements	10,639,355	14,756,962	38.70%
Subtotal	<u>10,971,450</u>	<u>15,111,487</u>	<u>37.73%</u>
Capital Assets Being Depreciated			
Buildings	1,383,385	1,383,385	0.00%
Equipment	9,241,929	9,797,517	6.01%
Yard and Storage	1,065,073	1,065,073	0.00%
Infrastructure	17,536,196	25,286,005	44.19%
Subtotal	<u>29,226,583</u>	<u>37,531,980</u>	<u>28.42%</u>
Total Capital Assets	<u>40,198,033</u>	<u>52,643,467</u>	<u>30.96%</u>
Total Accumulated Depreciation	<u>(8,519,853)</u>	<u>(10,219,040)</u>	<u>19.94%</u>
Total Net Capital Assets	<u>\$ 31,678,180</u>	<u>\$ 42,424,427</u>	<u>33.92%</u>

The Road Commission reported the infrastructure and related assets during the current year in the amount of \$11,897,357. The infrastructure recorded, during 2004, will be depreciated in the following year. The infrastructure is financed through Federal, State and local contributions. The Road Commission will retroactively report infrastructure assets (assets acquired after 1980) in a subsequent year as permitted by GASB No. 34.

This year's major capital asset additions included the following:

Reconstruction of Bridges (by Location)	\$ 1,261,380
Various Resurfacing Projects and Related Land/Right-of-Way	6,488,429
Trucks/Equipment	762,444
Administrative and Engineering	<u>28,572</u>
Total Additions	<u>\$ 8,540,825</u>

There were no installment purchase agreements entered into during 2004, all the equipment was acquired with Road Commission funds.

**ALLEGAN COUNTY ROAD COMMISSION**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

During 2004, the Road Commission traded in and/or disposed of road equipment with a purchase amount of \$235,428, related depreciation of \$235,428, and net book value of \$0.

Debt

At the year end, the Road Commission had \$221,221 in installment purchase agreements versus \$292,145 last year, a decrease of \$70,924 or 24.28% as shown below:

	<u>2003</u>	<u>2004</u>	<u>Variance</u>	<u>% of Variance</u>
Bonds Payable	\$ 35,000		\$ 35,000	100.00%
Installment Purchase Agreements	<u>257,145</u>	<u>\$ 221,221</u>	<u>35,924</u>	<u>13.97%</u>
Total	<u>\$ 292,145</u>	<u>\$ 221,221</u>	<u>\$ 70,924</u>	<u>24.28%</u>

During 2004, there was no new debt and two of three installment purchase agreements along with the bond was paid off. In 2005, the Road Commission does not anticipate borrowing or financing any debt related to the acquisition of capital assets.

Other obligations include accrued vacation pay and sick leave. More detailed information about the Road Commission's long-term liabilities is presented in Note G to the financial statements.

**Economic Factors and Next Year's Budget**

The board of county road commissioners considered many factors when setting the fiscal year 2005 budget. One of the factors is the economy. The Road Commission derived approximately 47% of its revenues from the fuel tax collected in 2004. We are projecting a small decrease in MTF funds due to the poor economy and high gas prices. The Road Commission received approximately 31% of its revenues from township contributions during 2004, this amount fluctuates with the approved road projects and depends on what and how much the townships can afford to participate. We are anticipating that the townships will spend \$4,150,000. During 2004, we expect to receive \$3,980,000 in Federal and State aid for road projects.

The above items were considered when adopting the budget for 2005. Amounts available for appropriation in the 2005 budget are \$19,208,100 an increase of 2% over the 2004 amended budget of \$18,906,100.

**Contacting the Road Commission's Financial Management**

This financial report is designed to provide the motoring public, citizens and other interested parties a general overview of the Road Commission's finances and to show the accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Allegan County Road Commission's administrative offices at 1308 Lincoln Road, Allegan, Michigan 49010.

**ALLEGAN COUNTY ROAD COMMISSION  
STATEMENT OF NET ASSETS  
December 31, 2004**

**EXHIBIT A**

**ASSETS**

Cash	\$ 514,482
Investments	778,282
Accounts Receivable	
Taxes	2,318,885
Michigan Transportation Fund	1,341,850
State--Other	52
Due on County Road Agreements	1,099,605
Sundry Accounts	11,638
Due From Primary Government	170,347
Inventories	
Road Materials	309,816
Equipment Parts and Materials	309,155
Prepaid Expenses	126,625
Capital Assets (Net of Accumulated Depreciation)	42,424,427
Total Assets	<u>49,405,164</u>

**LIABILITIES**

Current Liabilities	
Accounts Payable	971,346
Due to State of Michigan	7,836
Accrued Liabilities	145,902
Performance Bonds Payable	35,115
Deferred Revenue	
Property Taxes	2,318,885
Noncurrent Liabilities	
Installment Purchase Agreements Payable--Due Within One Year	23,599
Installment Purchase Agreements Payable--Due in More Than One Year	197,622
Vested Employee Benefits Payable	418,759
Total Liabilities	<u>4,119,064</u>

**NET ASSETS**

Investment in Capital Fixed Assets	
Net of Related Debt	42,203,206
Restricted for County Roads	3,082,894
Total Net Assets	<u><u>\$ 45,286,100</u></u>

**The Notes to Financial Statements are an integral part of this statement.**

**ALLEGAN COUNTY ROAD COMMISSION**  
**STATEMENT OF ACTIVITIES**  
**For the Year Ended December 31, 2004**

**EXHIBIT B**

Program Expenses	
Primary Road Maintenance	\$ 2,199,985
Local Road Maintenance	4,771,542
Net Equipment Expense	(179,186)
Net Administrative Expense	575,971
Non-Road Project	-
Infrastructure Depreciation	945,340
Compensated Absences	18,572
Interest Expense	12,980
	<hr/>
Total Program Expenses	8,345,204
	<hr/>
Program Revenue	
Charges for Services	
License and Permits	29,593
Charges for Services	10,845
Reimbursements	2,189
Operating Grants and Contributions	
Michigan Transportation Funds	8,728,542
Investment Earnings	47,402
Capital Grants and Contributions	
Federal Grants	2,043,034
State Grants	283,142
Contributions From Local Units	5,310,123
	<hr/>
Total Program Revenue	16,454,870
	<hr/>
Net Program Revenue	8,109,666
	<hr/>
General Revenue	
Taxes	2,231,533
Gain on Equipment Disposal	56,984
Gain on Sale of Surplus Property	14,062
Transfers In--Primary Government	136,133
	<hr/>
Total General Revenues and Transfers In	2,438,712
	<hr/>
Change in Net Assets	10,548,378
	<hr/>
Net Assets	
Beginning of Year	34,737,722
	<hr/>
End of Year	\$ 45,286,100
	<hr/>

**The Notes to Financial Statements are an integral part of this statement.**

**ALLEGAN COUNTY ROAD COMMISSION  
BALANCE SHEET  
December 31, 2004**

**EXHIBIT C**

	<b>GOVERNMENTAL FUND TYPE</b>
	<b>General Operating Fund</b>
<b><u>ASSETS</u></b>	
Cash	\$ 514,482
Investments	778,282
Taxes Receivable	2,318,885
Accounts Receivable	
Michigan Transportation Fund	1,341,850
State Highway--Other	52
Due From Primary Government	170,347
Due on County Road Agreements	1,099,605
Sundry Accounts	11,638
Inventories	
Road Materials	309,816
Equipment Parts and Materials	309,155
Prepaid Expense	<u>126,625</u>
Total Assets	<u><u>\$6,980,737</u></u>
<b><u>LIABILITIES AND FUND EQUITY</u></b>	
Liabilities	
Accounts Payable	\$ 971,346
Accrued Liabilities	145,902
Due to State of Michigan	7,836
Performance Bonds Payable	35,115
Deferred Revenue--Property Taxes	<u>2,318,885</u>
Total Liabilities	<u>3,479,084</u>
Fund Equities	
Fund Balance	
Reserved for Inventory	618,971
Unreserved and Undesignated	<u>2,882,682</u>
Total Fund Equities	<u>3,501,653</u>
Total Liabilities and Fund Equities	<u><u>\$6,980,737</u></u>

**The Notes to Financial Statements are an integral part of this statement.**

**ALLEGAN COUNTY ROAD COMMISSION  
RECONCILIATION OF THE BALANCE SHEET FUND  
BALANCE TO THE STATEMENT OF NET ASSETS  
For the Year Ended December 31, 2004**

**EXHIBIT D**

Total Governmental Fund Balance	\$ 3,501,653
---------------------------------	--------------

Amounts reported for governmental activities in the Statement of Net Assets are  
are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	42,424,427
------------------------------------------------------------------------------------------------------------------------------	------------

Other long-term assets are not available to pay for current period expenditures and, therefore, are not reported in the funds.	<u>(639,980)</u>
-----------------------------------------------------------------------------------------------------------------------------------	------------------

Net Assets of Governmental Activities	<u><u>\$45,286,100</u></u>
---------------------------------------	----------------------------

**The Notes to Financial Statements are an integral part of this statement.**

**ALLEGAN COUNTY ROAD COMMISSION**  
**STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCE**  
**For the Year Ended December 31, 2004**

**EXHIBIT E**

	Operating Fund
Revenues	
Taxes	\$ 2,231,533
License and Permits	29,593
Federal Grants	2,043,034
State Grants	9,011,684
Contributions From Local Units	5,310,123
Charges for Services	10,845
Interest and Rents	47,402
Other Revenue	80,746
	<hr/>
Total Revenues	18,764,960
	<hr/>
Expenditures	
Public Works	19,265,669
Net Capital Outlay	(198,259)
Debt Service	83,904
	<hr/>
Total Expenditures	19,151,314
	<hr/>
Excess of Revenues Over (Under) Expenditures	(386,354)
	<hr/>
Other Financing Sources	
Transfers In--Primary Government	136,133
	<hr/>
Total Other Financing Sources	136,133
	<hr/>
Excess of Revenues and Other Financing Sources Over Expenditures	(250,221)
	<hr/>
Fund Balance--January 1, 2004	3,751,874
	<hr/>
Fund Balance--December 31, 2004	\$ 3,501,653
	<hr/> <hr/>

**The Notes to Financial Statements are an integral part of this statement.**

**ALLEGAN COUNTY ROAD COMMISSION  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCE OF  
GOVERNMENTAL FUNDS TO THE STATEMENTS OF ACTIVITIES  
For the Year Ended December 31, 2004**

**EXHIBIT F**

Net Change in Fund Balance--Total Governmental Funds \$ (250,221)

Amounts reported for governmental activities in the statement are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period. Equipment retirement is recorded as an expenditure credit in governmental funds, but not recorded as an expense in the Statement of Activities.

11,691,587

Lease proceeds provide current financial resources to governmental funds, but entering into lease agreements increases long-term liabilities in the Statement of Net Assets. Repayment of notes/leases payable is an expenditure in governmental funds, but reduces the long-term liabilities in the Statement of Net Assets.

70,924

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. (Increase in compensated absences and infrastructure depreciation)

(963,912)

Change in Net Assets of Governmental Activities

\$ 10,548,378

**The Notes to Financial Statements are an integral part of this statement.**

## ALLEGAN COUNTY ROAD COMMISSION

### NOTES TO FINANCIAL STATEMENTS

The accounting policies of the Allegan County Road Commission conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by Allegan County Road Commission.

#### NOTE A--REPORTING ENTITY

The Allegan County Road Commission, which is established pursuant to the County Road Law (MCL 224.1), is governed by a 3 member board of county road commissioners appointed by the county board of commissioners. The Road Commission may not issue debt without the county's approval and property tax levies for road purposes are subject to county board of commissioners' approval.

The criteria established by the Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity," for determining the reporting entity includes oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if the component unit data were not included. Based on the above criteria, these financial statements present the Allegan County Road Commission, a discretely presented component unit of Allegan County.

The Road Commission Operating Fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the county, which are earmarked by law for street and highway purposes. The board of county road commissioners is responsible for the administration of the Road Commission Operating Fund.

#### NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### Basis of Presentation--Government-Wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the activities of the Allegan County Road Commission. There is only one fund reported in the government-wide financial statements.

The Statement of Net Assets presents the Road Commission's assets and liabilities with the difference being reported as either invested in capital assets, net of related debt; or restricted net assets.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expense are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

# ALLEGAN COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Basis of Presentation--Fund Financial Statements

Separate financial statements are provided for the Operating Fund (governmental fund). The Operating Fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions.

#### Measurement Focus/Basis of Accounting--Government-Wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Amounts reported as program revenue include: (1) charges to customer or applicants for goods or services or privileges provided; (2) Michigan transportation funds, State/Federal contracts and township contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

#### Measurement Focus/Basis of Accounting--Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Measurable refers to the ability to quantify in monetary terms of the amount of the revenue. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures as well as expenditures related to compensated absences, claims, and judgments are recorded only when payment is due.

Michigan transportation funds, grants, permits, township contributions and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

#### Cash, Cash Equivalents and Investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

## ALLEGAN COUNTY ROAD COMMISSION

### NOTES TO FINANCIAL STATEMENTS

#### NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

##### Property Taxes Receivable

The property tax is levied on each December 1st on the taxable valuation of property located in the county as of the preceding December 31st. The 2004 taxable valuation of the Allegan County Road Commission amounted to \$3,405,490,932, less \$1,040,948,857 for cities and villages on which ad valorem taxes of .9806 mills were levied for the Road Commission for road construction purposes for a total of \$2,318,885.

The county's 2004 ad valorem tax is levied and collectible on December 1, 2004, and is reported as taxes receivable and is offset by deferred revenue at December 31, 2004.

##### Inventories

Inventories are priced at cost as determined on the average unit cost method. Inventory items are charged to road construction and maintenance, equipment repairs, and operations as used.

##### Prepaid Expenses

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid expense in both the government-wide and fund financial statements.

##### Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges and similar items), are reported in the Operating Fund in the government-wide financial statements. Capital assets are defined by Allegan County Road Commission as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical costs or estimated historical cost of purchase or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

GASB No. 34 requires major networks and major subsystems of infrastructure assets acquired, donated, constructed, or substantially rehabilitated since fiscal years ending after June 30, 1980 be inventoried and capitalized by the fourth anniversary of the mandated date of adoption of the other provisions of GASB No. 34. The Allegan County Road Commission has capitalized the current year's infrastructure as required by GASB No. 34, and has reported the infrastructure in the Statement of Net Assets. The Road Commission will retroactively capitalize the major infrastructure assets on or before December 31, 2006 as permitted by GASB No. 34.

# ALLEGAN COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Depreciation

Depreciation is computed on the sum-of-the-years'-digits method for road equipment and straight-line method for all other capital assets. The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

Buildings	30 to 50 years
Road Equipment	5 to 8 years
Shop Equipment	10 years
Engineering Equipment	4 to 10 years
Office Equipment	4 to 10 years
Infrastructure--Roads	8 to 30 years
Infrastructure--Bridges	12 to 50 years

#### Property Taxes

Property taxes are levied on each December 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

The Road Commission's tax is levied and collectible on December 1, 2003 and is recognized as revenue in the year ended December 31, 2004, when the proceeds of the levy are budgeted and available for the financing operations.

#### Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Operating Fund Statement of Net Assets.

#### Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

# ALLEGAN COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### NOTE C--BUDGETARY PROCEDURES

Budgetary procedures are established pursuant to Public Act 2 of 1968, as amended, (MCL 141.421) which requires the county board of road commissioners to approve a budget for the County Road Fund. Pursuant to the Act, the Road Commission's chief financial officer prepares and submits a proposed operating budget to the board of road commissioners for its review and consideration. The board does not conduct a public budget hearing; the budget is submitted to the county and included in its public hearing. The budget is amended as necessary during the year, and is approved by the board. The budget is prepared on the modified accrual basis of accounting, which is the same basis as the financial statements.

### NOTE D--CASH AND INVESTMENTS

The cash and investments are classified by GASB Statement No. 3 in the following categories:

Bank Deposits (Checking Accounts, Savings Accounts and Certificates of Deposit)	\$ 514,382
Investments in Securities, Mutual Funds and Similar Vehicles	778,282
Petty Cash and Cash on Hand	<u>100</u>
Total	<u><u>\$1,292,764</u></u>

Michigan Compiled Laws, Section 129.91, authorizes the Road Commission to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Road Commission has adopted the county's investment policy, which is in accordance with the provisions of Public Act 196 of 1997.

# ALLEGAN COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### NOTE D--CASH AND INVESTMENTS (Continued)

The risk disclosures for the Road Commission deposits, as required by the Governmental Accounting Standards Board (GASB) Statement No. 3, are as follow:

<u>Imprest Cash and Deposits</u>	<u>Carrying Amount</u>	<u>Institution Balances</u>
Operating Fund		
Uninsured	\$414,382	\$ 528,963
Insured (FDIC)	100,000	200,000
Imprest Cash	<u>100</u>	<u></u>
Total Operating Fund	<u>\$514,482</u>	<u>\$ 728,963</u>

The GASB Statement No. 3 risk disclosures for the Allegan County Road Commission's investments are as follows:

<u>Investment Type</u>	<u>(1)</u>	<u>(2)</u>	<u>(3)</u>	<u>Carrying Amount</u>	<u>Market Value</u>
Operating Fund					
Risk-Categorized					
US Government Securities		\$ 250,420		\$ 250,420	\$ 250,420
Nonrisk-Categorized					
U.S. Government Obligatgions				248,515	248,515
Pooled Investment				<u>279,347</u>	<u>279,347</u>
Total Operating Fund				<u>\$ 778,282</u>	<u>\$ 778,282</u>

Risk-Categories: (1) Insured or registered, or securities held by the entity or its agent in the entity's name; (2) Uninsured and unregistered, with the securities held by the counterparty's trust department or agent in the entity's name; (3) Uninsured and unregistered, with the securities held by the counterparty or by its trust department but not in the entity's name. The money market investments are invested in a pooled money market, which cannot by definition be categorized by risk, which is in accordance with GASB Statement No. 3.

### NOTE E--INTERFUND RECEIVABLES AND PAYABLES

At December 31, 2004, the county (primary government) owed the Road Commission \$170,347 for the Richmond Bridge Project.

# ALLEGAN COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### NOTE F--CAPITAL ASSETS

The following is a summary of changes in the capital assets:

	Account Balances 01/01/04	Additions	Deductions	Account Balances 12/31/04
Capital Assets Not Being Depreciated				
Land and Improvements	\$ 147,298		\$ 7,511	\$ 139,787
Land/Right-of-Way	184,797	\$ 29,941		214,738
Infrastructure Land Improvements	10,639,355	4,117,607		14,756,962
Subtotal	10,971,450	4,147,548	7,511	15,111,487
Capital Assets Being Depreciated				
Buildings	1,383,385			1,383,385
Road Equipment	8,998,706	755,507	217,857	9,536,356
Shop Equipment	25,576	6,937		32,513
Office Equipment	172,651	25,076	17,571	180,156
Engineer's Equipment	44,996	3,496		48,492
Yard and Storage	1,065,073			1,065,073
Infrastructure--Bridges	1,374,174	1,261,380		2,635,554
Infrastructure--Roads	16,162,022	6,488,429		22,650,451
Total	29,226,583	8,540,825	235,428	37,531,980
Less Accumulated Depreciation				
Building	584,804	27,544		612,348
Road Equipment	6,765,894	906,409	217,857	7,454,446
Shop Equipment	17,503	4,098		21,601
Office Equipment	155,447	23,612	17,571	161,488
Engineer's Equipment	38,623	4,806		43,429
Yard and Storage	116,326	22,806		139,132
Infrastructure--Bridges	11,032	30,780		41,812
Infrastructure--Roads	830,224	914,560		1,744,784
Total	8,519,853	1,934,615	235,428	10,219,040
Net Capital Assets Being Depreciated	20,706,730	6,606,210	-	27,312,940
Total Net Capital Assets	\$31,678,180	\$10,753,758	\$ 7,511	\$42,424,427

# ALLEGAN COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### NOTE F--CAPITAL ASSETS (Continued)

Depreciation expense was charged to the following activities:

Net Equipment Expense	
Direct Equipment	\$ 906,409
Indirect Equipment	54,448
Net Administrative Expense	
Administrative	23,612
Engineering	4,806
Infrastructure Depreciation Expense	<u>945,340</u>
Total Depreciation Expense	<u><u>\$1,934,615</u></u>

### NOTE G--LONG-TERM DEBT

The long-term debt of the Road Commission may be summarized as follows:

	<u>Balance</u> <u>01/01/04</u>	<u>Additions</u> <u>(Reductions)</u>	<u>Balance</u> <u>12/31/04</u>	<u>Due Within</u> <u>One Year</u>
Bonds Payable				
1989--Salem Township Bond	\$ 35,000	\$ (35,000)	-	
Installment Purchase Agreements				
Capterpillar Financial Services				
One Wheel Loader, May 1999	10,577	(10,577)	-	
One Motor Grader, October 2000	2,851	(2,851)	-	
Two Motor Graders, December 2001	243,717	(22,496)	\$ 221,221	\$ 23,599
Vested Employee Benefits	<u>400,187</u>	<u>18,572</u>	<u>418,759</u>	<u>          </u>
Total	<u><u>\$692,332</u></u>	<u><u>\$ (52,352)</u></u>	<u><u>\$ 639,980</u></u>	<u><u>\$ 23,599</u></u>

Annual debt service requirements to maturity for bonds payable as of December 31, 2004, may be summarized as follows:

# ALLEGAN COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### NOTE G--LONG-TERM DEBT (Continued)

Installment Purchase Agreement with Caterpillar Financial Services Corporation for two motor graders.

Date of Installment Agreement: December 2001

Amount of Installment Purchase Agreement: \$285,600

60 Monthly Payments of: \$2,808.60

Nominal Annual Interest Rate: 4.80%

<u>Year Ended</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
12/31/05	\$ 23,599	\$ 10,104	\$ 33,703
12/31/06	<u>197,622</u>	<u>8,945</u>	<u>206,567</u>
	<u>\$ 221,221</u>	<u>\$ 19,049</u>	<u>\$ 240,270</u>

### NOTE H--VESTED EMPLOYEE BENEFITS

Employees with 6 months of seniority are granted leave time of 16 hours per month. Office employees get an additional 16 hours per year at January 1. This leave time may be used to cover absences because of illness or vacation. Such leave may be accumulated to a maximum of 768 hours.

On the first payday of June each year, employees are paid an amount equal to all leave accrued in excess of 576 hours as shown in the records on December 31 of the preceding year. Accumulated leave time is payable in full upon resignation or retirement. Office employees leave time is payable in full upon resignation, termination or retirement.

### NOTE I--DEFERRED COMPENSATION PLAN

The Road Commission offers all its employees a deferred compensation plan created in accordance with the Internal Revenue Code, Section 457. The assets of the plans were held in trust, (custodial account or annuity contract) as described in IRC Section 457 (g) for the exclusive benefit of the participants (employees) and their beneficiaries. The custodian thereof for the exclusive benefit of the participants holds the custodial account for the beneficiaries of this Section 457 plan, and the assets may not be diverted to any other use. The administrators are agents of the employer (Allegan County Road Commission) for the purposes of providing direction to the custodian of the custodial account from time to time for the investment of the funds held in the account, transfer of assets to or from the account, and all other matters. In accordance with the provisions of GASB Statement No. 32, plan balances and activities are not reflected in the Road Commission's financial statements.

## ALLEGAN COUNTY ROAD COMMISSION

### NOTES TO FINANCIAL STATEMENTS

#### NOTE J--POST-EMPLOYMENT HEALTH CARE BENEFITS

The Road Commission provides post-employment health care benefits, in accordance with the respective bargaining agreements and personnel policy as follows:

Employees that belong to the office bargaining unit and non-represented employees contribute the cost of their health care insurance coverage in accordance with the terms and conditions as applicable to them as of their last date of active service with the Road Commission (either \$6 or 3.5% or 4% of the premium). The full premium, less employee portion of medical benefits for the retired employees through the ages of 60 through 64 years old (or 55 years old if they begin to receive Michigan Municipal Employees' Retirement System) is paid by the Road Commission. When the retired employee attains the age of 65 years, the employer's contribution shall end under the contracts. Beginning January 1, 1999, an employee who retires and begins receiving benefits from MERS, may receive a maximum of five years of paid health insurance, irrespective of age.

Employees that belong to the Local Union No. 586, Unit 86, Service Employees' International Union contribute the cost of their health care insurance coverage in accordance with the terms and conditions as applicable to them as of their last date of active service with the Road Commission. The Road Commission shall provide health care insurance coverage for a period of five years for all members who retire with twenty or more years of service and receive benefits from the Michigan Municipal Retirement System. The board will provide benefits only to the employee and the board's obligation does not include the coverage of a retired employee's spouse or dependents. The board shall provide no benefits to any employee after reaching the age of 65 years.

Currently, 7 retirees meet those eligibility requirements. Expenditures for post-employment health care benefits are recognized as the insurance premiums become due. During the year, expenditures of \$25,109 were recognized for post-employment health care by the Road Commission.

#### NOTE K--EMPLOYEE PENSION PLAN

##### Plan Description

The Allegan County Road Commission is in an agent multi employer-defined benefit pension plan with the Municipal Employees' Retirement System (MERS), administered by the State of Michigan. The system provides the following provisions: normal retirement deferred retirement, service retirement allowance, disability retirement allowance, non-duty connected death and post-retirement adjustments to plan members and their beneficiaries. The service requirement is computed using credited service at the time of termination of membership multiplied by the sum of 2% time the final average compensation (FAC). The most recent period for which actuarial data was available was for the fiscal year ended December 31, 2003.

# ALLEGAN COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### NOTE K--EMPLOYEE PENSION PLAN (Continued)

MERS was organized pursuant to Section 12a of Public Act 156 of 1851, MCL 46.12(a)), as amended, State of Michigan. MERS is regulated under Public Act 427 of 1984, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the MERS at 1134 Municipal Way, Lansing, Michigan 48917.

#### Funding Policy

The obligation to contribute to and maintain the system for these employees was established by negotiation with the Road Commission's competitive bargaining unit and personnel policy, which requires employees to contribute 3% of the first \$4,200 of annual compensation and 5% of portions over \$4,200. The employees contributed \$132,642 during 2003 in accordance with the competitive bargaining and personnel policy. The Road Commission is required to contribute at an actuarially determined rate which was 0% of the annual payroll for the union and supervisors and 3.76% for administration based on the 2001 actuarial valuation beginning on January 1, 2003.

#### Annual Pension Cost

During the year ended December 31, 2003, the Road Commission was required to make \$28,021 in contributions as determined by an actuarial valuation of the plan as of December 31, 2001. The employer contribution rate has been determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8% and annual salary increases of 4.5% based on an age-related scale to reflect merit, longevity, and promotional salary increases.

#### Three Year Trend Information for GASB Statement No. 27

<u>Year Ended Dec 31</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2001	\$ 118,681	100%	\$0
2002	127,372	100%	0
2003	160,663	100%	0

# ALLEGAN COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### NOTE K--EMPLOYEE PENSION PLAN (Continued)

#### Required Supplementary Information for GASB Statement No. 27

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percent of Covered Payroll
12/31/01	\$12,483,042	\$11,221,940	\$(1,261,102)	111%	\$2,497,177	0%
12/31/02	12,355,498	12,370,024	14,526	100%	2,685,007	1%
12/31/03	12,761,760	12,914,970	153,210	99%	2,762,714	6%

### NOTE L--RISK MANAGEMENT

The Road Commission is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical benefits provided to employees. The Road Commission has purchased commercial insurance for Inland Marine, physical damage (building and contents) and medical benefit claims. The Road Commission participates in the Michigan County Road Commission Self-Insurance Pool for claims relating to general liability, excess liability, auto liability, errors and omissions and physical damage (equipment). The Road Commission participates in the County Road Commission Self-Insurance Fund (CRCSIF) for workers' compensation insurance. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past 3 fiscal years.

The county road commissions in the State of Michigan established a trust fund, known as the Michigan County Road Commission Self-Insurance Pool (Pool) pursuant to the provision of Public Act 138 of 1982. The Pool is to provide for joint and cooperative action relative to members' financial and administrative resources for the purpose of providing risk management services along with property and liability protection. Membership is restricted to road commissions and related road commission activities with the State. The Allegan County Road Commission became a member in the pool in April 1984 and became a member of CRCSIF in 1981.

The Michigan County Self-Insurance Pool program operates as a common risk-sharing management program for road commissions in Michigan, member premiums are used to purchase excess insurance coverage and to pay member claims in excess of deductible amounts.

### NOTE M--CONTINGENT LIABILITIES

The Road Commission, in connection with the normal conduct of its affairs, is involved in various claims, judgments and litigation. The Road Commission's insurance carrier estimates that the potential claims against the Road Commission, not covered by insurance resulting from such litigation, would not materially affect the financial statements of the Road Commission.

## ALLEGAN COUNTY ROAD COMMISSION

### NOTES TO FINANCIAL STATEMENTS

#### NOTE N--FEDERAL GRANTS

The Michigan Department of Transportation (MDOT) requires that road commissions report all Federal and State grants pertaining to their county. During the calendar year ended December 31, 2004, the Federal aid received and expended by the Road Commission was \$1,581,672 for contracted projects. Contracted projects are defined as projects performed by private contractors paid for and administrated by MDOT. The contracted Federal projects are not subject to Single Audit requirements by the road commissions, as they are included in MDOT's Single Audit.

During the calendar year ended December 31, 2004, the Road Commission received one Federal grant of \$461,362 for a negotiated project. Negotiated projects are projects that are performed by the Road Commission and are subject to Single Audit requirements, if the amount expended is \$500,000 or more. A Single Audit was not performed for the calendar year ended December 31, 2004.

**ALLEGAN COUNTY ROAD COMMISSION  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES  
BUDGETARY COMPARISON SCHEDULE  
For the Year Ended December 31, 2004**

**EXHIBIT G**

	Original Adopted Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Taxes				
Property Taxes	\$ 2,000,100	\$ 2,233,100	\$ 2,231,533	\$ (1,567)
License and Permits				
Permits	25,000	30,000	29,593	(407)
Federal Grants				
Surface Transportation Program	1,867,000	992,000	1,192,934	200,934
Hazard Elimination Safety	200,000			
Federal Critical Bridge	900,000	278,000	277,215	(785)
Enhancement Grant	360,000			-
Economic D Funds	1,330,000	1,000,000	572,885	(427,115)
State Grants				
Michigan Transportation Fund				
Engineering	10,000	10,000	10,000	-
Primary Road	4,760,000	5,061,000	5,060,618	(382)
Local Road	3,192,000	3,286,000	3,285,474	(526)
Primary Urban Road	126,000	183,000	182,350	(650)
Local Urban Road	48,000	74,000	73,365	(635)
Snow Removal	115,000	117,000	116,735	(265)
Critical Bridge	168,750	52,000	51,978	(22)
Economic Development Funds				
"D" Funds	770,000	-	231,164	231,164
Contributions--Local Units				
Townships	4,335,000	5,311,000	5,310,123	(877)
Charges for Services				
Salvage Sales	5,000	3,000	2,434	(566)
Service Charge	30,000	9,000	8,411	(589)
Interest and Rents				
Interest Earned	100,000	48,000	47,402	(598)
Other Revenue				
Sale of Fixed Assets--Land			7,511	7,511
Reimbursements	10,000	3,000	2,189	(811)
Gain on Equipment Disposal	100,000	57,000	56,984	(16)
Gain on Sale of Surplus Property		22,000	14,062	(7,938)
Total Operating Revenue	20,451,850	18,769,100	18,764,960	(4,140)
Other Financing Sources				
County Appropriation	250,000	137,000	136,133	(867)
Total Other Financing Sources	250,000	137,000	136,133	(867)
Total Revenue and Other Financing Sources	20,701,850	18,906,100	<u>\$ 18,901,093</u>	<u>\$ (5,007)</u>
Fund Balance--January 1, 2004	3,751,874	3,751,874		
Total Budget	<u>\$ 24,453,724</u>	<u>\$ 22,657,974</u>		

**ALLEGAN COUNTY ROAD COMMISSION**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF EXPENDITURES--BUDGET AND ACTUAL**  
**BUDGETARY COMPARISON SCHEDULE**  
**For the Year Ended December 31, 2004**

**EXHIBIT H**

	Original Adopted Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Primary Road				
Heavy Maintenance	\$ 7,190,000	\$ 5,525,000	\$ 5,524,799	\$ 201
Maintenance	1,675,000	2,196,000	2,194,403	1,597
Local Road				
Heavy Maintenance	4,200,000	5,112,000	5,111,178	822
Maintenance	4,695,000	4,771,000	4,768,702	2,298
Primary Road Structure				
Heavy Maintenance	10,000	1,300	1,223	77
Maintenance	10,000	6,000	5,582	418
Local Road Structure				
Heavy Maintenance	1,675,000	1,261,000	1,260,157	843
Maintenance	5,000	3,000	2,840	160
Equipment Expense--Net	28,150	(179,000)		
Direct			\$ 1,447,065	
Indirect			824,024	
Operating			314,102	
Less: Equipment Rentals			<u>(2,764,377)</u>	(179,186)
Administrative Expense--Net	605,000	576,000		
Administrative Expense			391,246	
Engineering Expense			184,991	
Less: Purchase Discounts			<u>(266)</u>	575,971
Non Road Project	670,000	-	-	-
Capital Outlay--Net	(195,000)	(189,000)		
Capital Outlay			791,016	
Less: Depreciation Credits			(989,275)	
Equipment Retirements			<u>-</u>	(198,259)
Debt Service				
Principal	140,000	71,000	70,924	76
Interest	30,000	13,000	12,980	20
Total Expenditures	20,738,150	19,167,300	<u>\$ 19,151,314</u>	<u>\$ 15,986</u>
Fund Balance--December 31, 2004	3,715,574	3,490,674		
Total Budget	<u>\$ 24,453,724</u>	<u>\$ 22,657,974</u>		

**ALLEGAN COUNTY ROAD COMMISSION**  
**ANALYSIS OF CHANGES IN FUND BALANCES**  
**For the Year Ended December 31, 2004**

**EXHIBIT I**

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Total Revenues	\$ 9,515,128	\$ 9,172,253	\$ 77,579	\$18,764,960
Total Expenditures	7,774,624	11,393,601	(16,911)	19,151,314
Excess of Revenues Over (Under) Expenditures	1,740,504	(2,221,348)	94,490	(386,354)
Other Financing Sources (Uses)				
County Appropriation		136,133		136,133
Optional Transfers	(1,587,042)	1,587,042		-
Interfund Adjustment		514,564	(514,564)	-
Total Other Financing Sources (Uses)	(1,587,042)	2,237,739	(514,564)	136,133
Excess of Revenues Over (Under) Expenditures and Other Financing Sources and (Uses)	153,462	16,391	(420,074)	(250,221)
Fund Balance--January 1, 2004	2,593,952	2,746	1,155,176	3,751,874
Fund Balance--December 31, 2004	\$ 2,747,414	\$ 19,137	\$ 735,102	\$ 3,501,653

**ALLEGAN COUNTY ROAD COMMISSION**  
**ANALYSIS OF REVENUES AND OTHER FINANCING SOURCES**  
**For the Year Ended December 31, 2004**

**EXHIBIT J**

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Taxes				
Property Taxes	\$2,231,533			\$ 2,231,533
License and Permits				
Permits			\$ 29,593	29,593
Federal Aid				
Surface Transportation Program	731,572	\$ 461,362		1,192,934
Critical Bridge		277,215		277,215
Economic D Funds	572,885			572,885
State Aid				
Michigan Transportation Fund				
Engineering	3,762	6,238		10,000
Allocation	5,060,618	3,285,474		8,346,092
Urban Roads	182,350	73,365		255,715
Snow Removal	43,409	73,326		116,735
Critical Bridge		51,978		51,978
Economic Development Funds				
"D" Funds	231,164			231,164
Contributions--Local Units				
Townships	367,398	4,942,725		5,310,123
Charges for Services				
Salvage Sales			2,434	2,434
Service Charge			8,411	8,411
Interest and Rents				
Interest Earned	32,773	35	14,594	47,402
Other Revenue				
Sale of Fixed Assets--Land			7,511	7,511
Reimbursements	1,654	535		2,189
Gain on Equipment Disposal	56,010		974	56,984
Gain on Sale of Surplus Property			14,062	14,062
Total Operating Revenue	9,515,128	9,172,253	77,579	18,764,960
Other Financing Sources				
Transfers In--Primary Government		136,133		136,133
Total Other Financing Sources	-	136,133	-	136,133
Total Revenue and Other Financing Sources	\$9,515,128	\$ 9,308,386	\$ 77,579	\$ 18,901,093

**ALLEGAN COUNTY ROAD COMMISSION**  
**ANALYSIS OF EXPENDITURES**  
**For the Year Ended December 31, 2004**

**EXHIBIT K**

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Primary Road				
Heavy Maintenance	\$5,524,799			\$ 5,524,799
Maintenance	2,194,403			2,194,403
Local Road				
Heavy Maintenance		\$ 5,111,178		5,111,178
Maintenance		4,768,702		4,768,702
Primary Road Structures				
Heavy Maintenance	1,223			1,223
Maintenance	5,582			5,582
Local Road Structures				
Heavy Maintenance		1,260,157		1,260,157
Maintenance		2,840		2,840
Equipment Expense--Net (Per Exhibit H)	(53,147)	(126,039)		(179,186)
Administrative Expense--Net (Per Exhibit H)	235,836	340,135		575,971
Capital Outlay--Net (Per Exhibit H)	(181,348)		\$ (16,911)	(198,259)
Debt Service				
Principal	35,924	35,000		70,924
Interest	11,352	1,628		12,980
Total Expenditures	<u>\$7,774,624</u>	<u>\$ 11,393,601</u>	<u>\$ (16,911)</u>	<u>\$19,151,314</u>



JENNIFER M. GRANHOLM  
GOVERNOR

STATE OF MICHIGAN  
DEPARTMENT OF TREASURY  
LANSING

JAY B. RISING  
STATE TREASURER

March 23, 2005

Allegan County Road Commission  
Board of County Road Commissioners  
1308 Lincoln Road  
Allegan, Michigan 49010

RE: Report on Compliance and on Internal Control Over Financial Reporting  
Based on an Audit of Financial Statements Performed in Accordance With  
Government Auditing Standards

Dear Commissioners:

We have audited the basic financial statements of the Allegan County Road Commission, a component unit of Allegan County, as of and for the year ended December 31, 2004, and have issued our report thereon dated March 23, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance--As part of obtaining reasonable assurance about whether Allegan County Road Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported herein under Government Auditing Standards, however, we did note an instance of noncompliance described in the accompanying Comments and Recommendations as item 02-1.

Internal Control Over Financial Reporting--In planning and performing our audit, we considered Allegan County Road Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the management, board, Federal awarding agencies, and State and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

A handwritten signature in dark ink, appearing to read 'CJ Vaughn', with a long horizontal flourish extending to the right.

Cary Jay Vaughn, CPA, CGFM  
Audit Manager  
Local Audit and Finance Division

## ALLEGAN COUNTY ROAD COMMISSION

### COMMENTS AND RECOMMENDATIONS

#### NONCOMPLIANCE WITH STATE STATUTES

Our examination revealed the following instance of noncompliance with State statutes.

##### Separate Depository Account

*Finding 02-01*

*Condition:* During 2001, the county closed the Road Commission Savings Account into the County's General Checking Account, commingling the Road Commission's funds with the rest of the funds of the county.

*Criteria:* MCL 247.662, Sec. 12 (12) Funds returned to a county shall be expended by the county road commission for the purposes provided in this section and **shall be deposited** by the county treasurer **in a designated county depository, in a separate account to the credit of the county road fund**, and shall be paid out only upon the order of the county road commission, and interest accruing on the money shall become a part of, and be deposited with the county road fund (emphasis added).

*Direction:* We direct that the Road Commission contact the county treasurer's office to reestablish a separate bank account for the Road Commission in accordance with State law to prevent the comingling of Road Commission funds.

*Management's Response--Corrective Action Plan:* Contact person is Claire Patrick, Allegan County Road Commission Business Manager, 1308 Lincoln Road, Allegan, Michigan 49010. Telephone (269) 673-2184.

I will contact the county treasurer and notify them of the violation of MCL 247.662 regarding the comingling of our funds immediately.